

Guide to Indicators of Financial Condition Preliminary Report to the City of Manhattan

Introduction

The primary source of the indicators presented is the International City/County Management Association's (ICMA) handbook, Evaluating Financial Condition. Variations of the ICMA indicators constructed by Brown for his ten-point test are also presented. Asterisks identify indicators based on information in the Comprehensive Annual Financial Report, as per Hay and Wilson's textbook, Governmental and Non-Profit Accounting. Additional indicators suggested by credit rating firms, Fitch IBCA and Standard & Poor's, are also presented where appropriate.

Community Needs and Resources – Background Data

Population

Interpretation: A rapid change in population size suggests the need for further investigation. A sudden increase in population can create immediate pressures for new capital outlay and higher levels of service. A decline in population seldom permits government to reduce expenditures in proportion to the population loss. In addition, the interrelationship of population and other economic and demographic factors tends to give population decline a cumulative negative effect on revenues (i.e. the greater the decline, the more adverse the effects on employment, income, housing, and business activity).

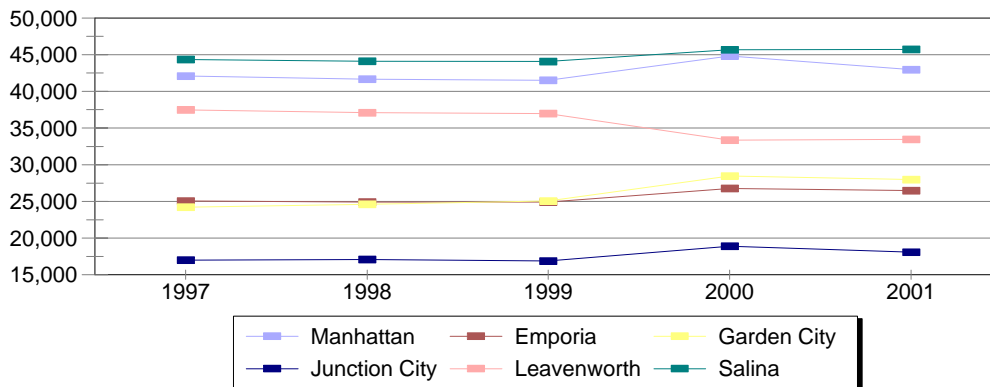
Population

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	42,092	25,051	24,201	16,991	37,488	44,354
1998	41,661	24,903	24,608	17,072	37,087	44,115
1999	41,499	24,897	25,043	16,851	36,954	44,077
2000	44,831	26,760	28,451	18,886	33,346	45,679
2001	42,960	26,469	27,984	18,063	33,452	45,729

Source: Office of Local Government, K-State Research & Extension

Estimates are from U.S. Census Bureau adjusted by state/federal prison population.

Population Trends



Property Value

Change in Property Value (constant \$)
 Property Value in Prior Year (constant \$)

where market value is the preferred measure, but assessed valuation may be substituted.

Annual Percentage Change in Real Total Assessed Valuation (2001\$)

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	2.10%	1.74%	4.19%	5.40%	1.61%	6.67%
1998	4.20%	0.15%	6.64%	-5.45%	1.62%	5.38%
1999	2.45%	5.42%	5.53%	2.95%	1.60%	3.52%
2000	5.02%	1.51%	3.11%	0.83%	2.97%	2.77%
2001	6.29%	3.19%	0.85%	1.08%	4.98%	1.83%

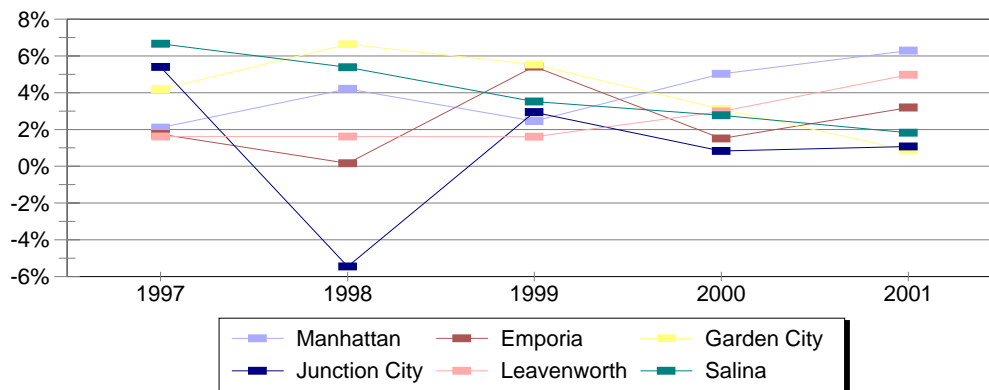
Source: CAFR

Interpretation: Changes in property value are important because most local governments depend on the property tax for a substantial portion of their revenues. Declining growth or a drop in the market value of residential, commercial, or industrial property in constant dollars is undesirable. Declining property values are often a symptom, rather than a cause, of other underlying problems.

Benchmark: Standard & Poor's suggests that market value per capita of \$20,000 is low; \$40,000 moderate; and \$60,000 high. Note, however, that these values may vary greatly by state depending on assessment practices, homeowners' exemptions, the cost of living, etc.

Related Notes: Standard & Poor's advises analyzing assessed valuation trends over a five- to ten-year period.

Change in Real Assessed Valuation



Personal Income Per Capita

Personal Income (constant \$)
Population

Real Per Capita Personal Income

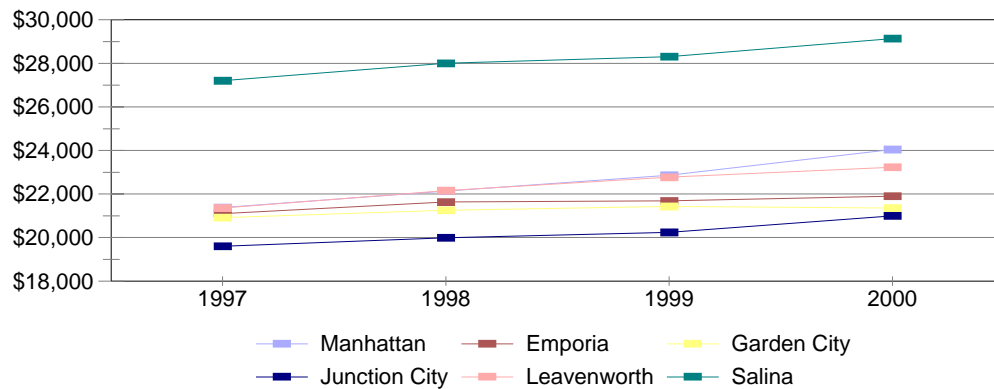
Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	\$21,374	\$21,097	\$20,910	\$19,603	\$21,350	\$27,204
1998	\$22,137	\$21,626	\$21,246	\$19,986	\$22,151	\$27,998
1999	\$22,861	\$21,678	\$21,427	\$20,239	\$22,766	\$28,306
2000	\$24,042	\$21,900	\$21,350	\$20,994	\$23,228	\$29,138
2001	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Bureau of Economic Analysis, Regional Economic Information System
Income information for 2001 is not yet available.

Interpretation: Personal income per capita is one measure of a community's ability to pay taxes. The higher the per capita income, the more taxes the community is expected to be able to generate. Standard and Poor's suggests that a wealthy and diverse economic base can generally afford higher debt burdens or recover from financial problems more easily through a modest tax hike than a poor economic base that might have more limited and less forgiving government options. In addition, per capita income levels affect consumer purchasing power, which impacts the local retail sector and, thus, the rest of the economy. A decline in the level or growth rate of personal income per capita is undesirable.

Benchmark: Fitch IBCA indicates that for a predominantly residential community's tax base to constitute the basis of an above-average general obligation bond rating, per capita income levels are generally at or above average. A strong and diverse commercial component in the tax base (40% or higher), however, can bolster an otherwise average residential income base, supporting an above-average rating. Standard & Poor's considers median household or per capita income levels of <=75% the national average very low; 85% low; 100% average; 120% high; and >=140% very high.

Real Per Capita Personal Income



Related Notes: It is important to recognize, however, that per capita income levels do not provide information about the local income distribution. Two communities with the same per capita income may have very different patterns of income distribution. One may have a small number of extremely high-income households and a large number of low-income households, while the other may be composed almost entirely of middle-income households. These distributions may result in very different service demands. Fitch IBCA points out that there is no strong evidence that governments with lower income levels have higher levels of default. Lower incomes could, in part, reflect lower costs of living in these locations. Measurements of ability to pay, such as median household and per capita incomes, however, remain important credit factors. Standard & Poor's concurs, indicating that high wealth and income characteristics are viewed very favorably and often contribute to superior debt repayment capabilities. ICMA notes that credit rating firms often compare growth in per capita incomes to growth in government expenditures to determine whether growth in income is keeping pace with that in expenditures. If not, a government's tax burden is increasing which may contribute to a future inability to meet financial obligations.

Revenues

Revenues Per Capita

$$\text{ICMA} = \frac{\text{Net Operating Revenues (constant dollars)}}{\text{Population}}$$

where Net Operating Revenues = Gross Operating Revenues (revenues in the general, special revenue, and debt service funds) – Revenues Legally Restricted to Capital Improvements or Other Special Purposes

Table 1. Real Revenues Per Capita (2001\$)

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	\$793.41	\$514.36	\$551.19	\$795.14	\$466.52	\$679.48
1998	\$841.91	\$542.82	\$595.25	\$970.23	\$508.65	\$733.44
1999	\$823.30	\$548.82	\$623.18	\$989.38	\$521.08	\$785.84
2000	\$834.21	\$535.63	\$565.74	\$812.66	\$593.04	\$771.21
2001	\$772.33	\$532.41	\$562.17	\$766.99	\$619.67	\$757.25

Definition: Real Net Operating Revenues/Population

Source: CAFR, Office of Local Government

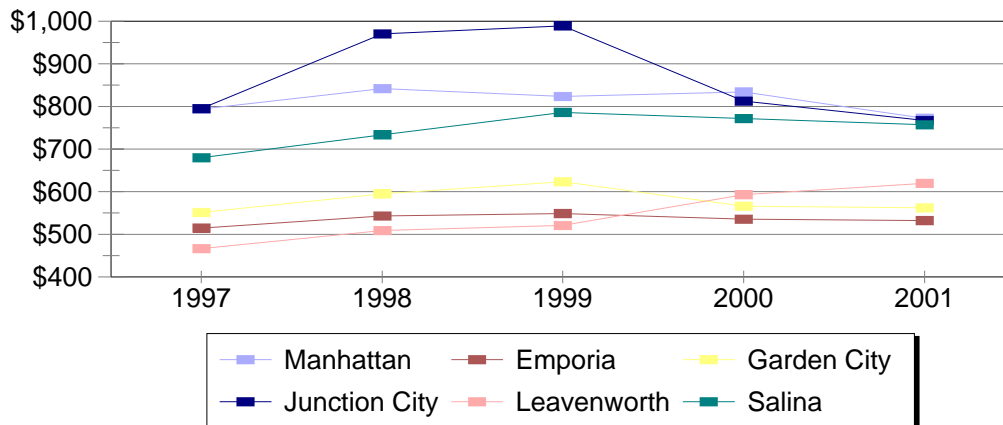
Net Operating Revenues includes General, Special Revenue, and Debt Service.

Population is from Census Bureau adjusted downward by state/federal inmate population.

Interpretation: Assuming the cost of services is directly related to population size, a decline in per capita revenues over time suggests the government may be unable to maintain existing service levels unless it finds new revenue sources or ways to save money.

Related Notes: The use of net operating revenues focuses attention on those revenues actually available for general operations.

Real Revenues Per Capita



Elastic Tax Revenues

$$\text{ICMA} = \frac{\text{Elastic Operating Revenues}}{\text{Net Operating Revenues}}$$

where Elastic Operating Revenues represent revenues from taxes that have a taxable base which are expected to reflect general economic changes in the short term (i.e. sales and income taxes and property taxes if reassessments are made frequently)

Table 2. Real Elastic Tax Revenues as a Proportion of Net Operating Revenues, 2001\$

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	11.91%	26.41%	38.06%	25.58%	26.05%	30.88%
1998	12.83%	27.80%	37.81%	21.74%	27.78%	31.42%
1999	12.91%	27.60%	35.12%	21.36%	27.08%	33.71%
2000	11.93%	26.38%	35.83%	25.06%	26.75%	34.38%
2001	13.82%	27.13%	34.71%	26.51%	25.83%	34.68%

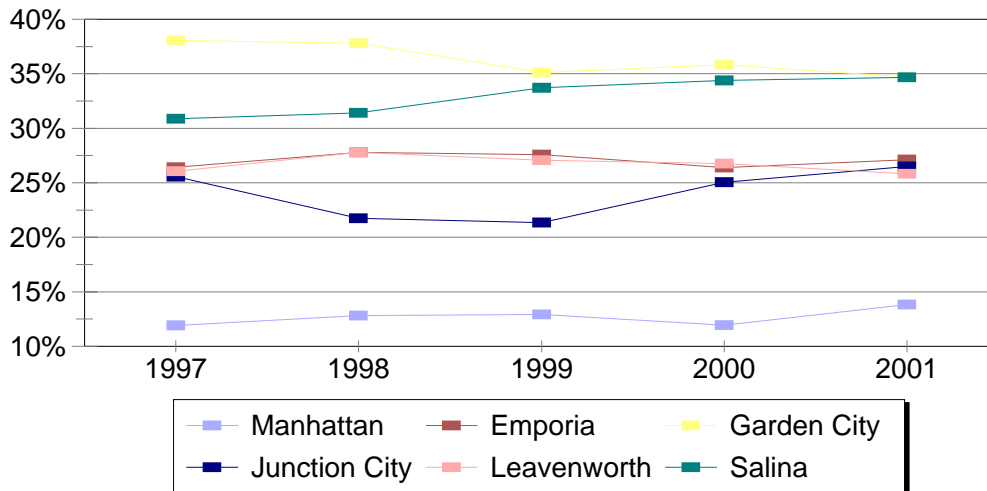
Definition: Sales Tax Revenues reported in the General Fund/Real Net Operating Revenues

Source: CAFR

Note: Manhattan, Junction City and Salina are the only municipalities providing General Fund Detail. The other cities may not be strictly comparable.

Interpretation: As the economic base expands or inflation increases, elastic revenues rise in roughly proportional amounts while inelastic revenues are relatively unresponsive. Therefore, it is generally undesirable for elastic operating revenues to decline as a percentage of net operating revenues over time. This is not true, of course, during times of deflation but this has seldom occurred in recent years.

Elastic Tax Revenues



Property Tax Revenues

ICMA = Property Tax Revenues (constant dollars)

Real Property Tax Revenue (2001\$)

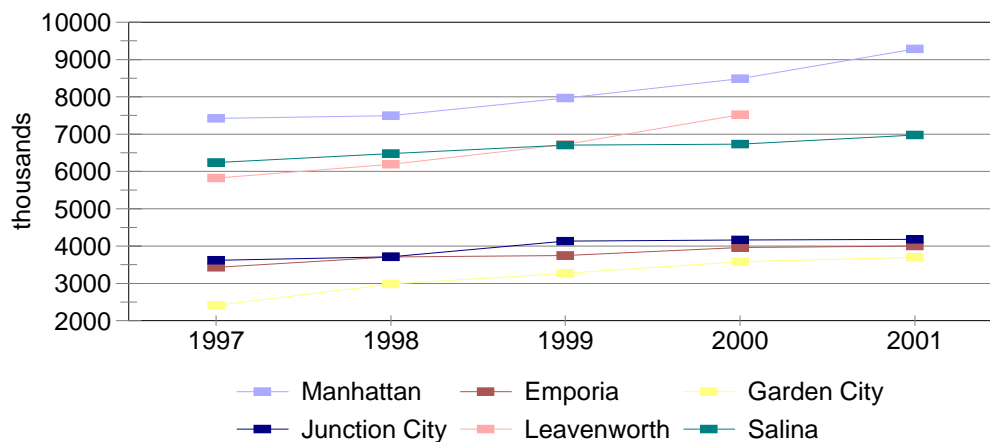
Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	\$7,418,173	\$3,427,391	\$2,406,159	\$3,619,176	\$5,823,221	\$6,236,222
1998	\$7,494,577	\$3,707,603	\$2,982,404	\$3,710,797	\$6,192,157	\$6,476,905
1999	\$7,964,790	\$3,745,676	\$3,269,645	\$4,130,927	\$6,726,040	\$6,706,022
2000	\$8,485,787	\$3,961,324	\$3,574,140	\$4,163,701	\$7,520,900	\$6,729,788
2001	\$9,283,358	\$3,999,327	\$3,701,070	\$4,178,709	N.A.	\$6,979,039

Source: CAFR - Includes Property Taxes Collected plus Delinquent Property Taxes Collected
 Property Tax Revenues are not available for Leavenworth for 2001

Interpretation: Property taxes are an important revenue source for most local governments. Thus, it is generally undesirable for property tax revenues to decline in real terms over time. A decline over time may indicate declining property values, unwilling or deliberate default by property owners, and/or inefficient appraisal. Note that reducing reliance on property taxes may be desirable if it is part of an effort to diversify revenues.

Related Notes: Fitch IBCA indicates that: Property taxes tend to be the most predictable and stable revenue source though they are not typically as responsive to inflationary growth. Diversifying revenues can reduce the burden on the property tax base and, while more volatile, the less predictable sales and excise taxes and payroll taxes often are able to access broader and deeper economic wealth.

Real Property Tax Revenue



Property Tax Revenues

Real Property Tax Revenues Per Capita

Real Property Tax Revenue Per Capita (2001\$)

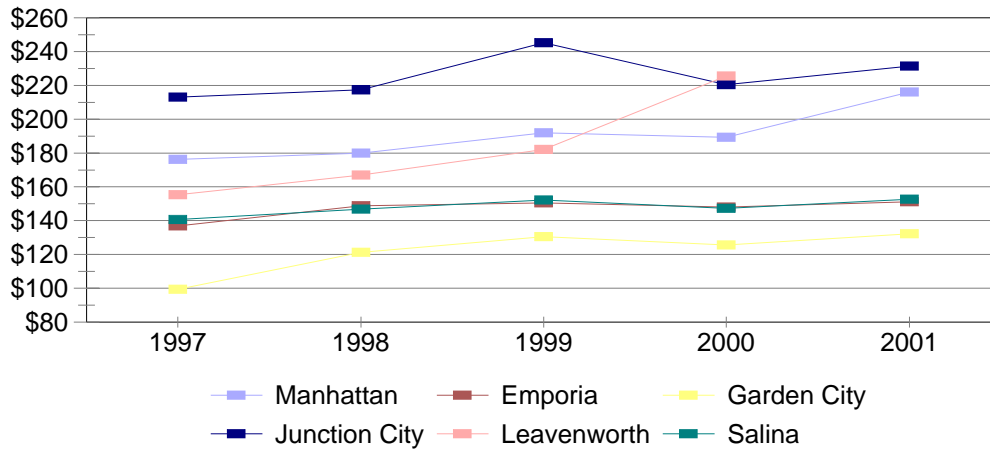
Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	\$176.24	\$136.82	\$99.42	\$213.01	\$155.34	\$140.60
1998	\$179.89	\$148.88	\$121.20	\$217.36	\$166.96	\$146.82
1999	\$191.93	\$150.45	\$130.56	\$245.14	\$182.01	\$152.14
2000	\$189.28	\$148.03	\$125.62	\$220.46	\$225.54	\$147.33
2001	\$216.09	\$151.09	\$132.26	\$231.34	N.A.	\$152.62

Definition: Real Property Tax Revenue/Population

Source: CAFR, OLG

Property Tax Revenues are not available for Leavenworth for 2001.

Property Tax Per Capita



Uncollected Property Taxes

$$\text{ICMA} = \frac{\text{Uncollected Property Taxes}}{\text{Net Property Tax Levy}}$$

where Net Property Tax Levy = Total or Gross Property Tax Levy – Exoneration, Abatement, and/or Other Reductions in Taxes Levied

Percentage of Current Property Tax Collected

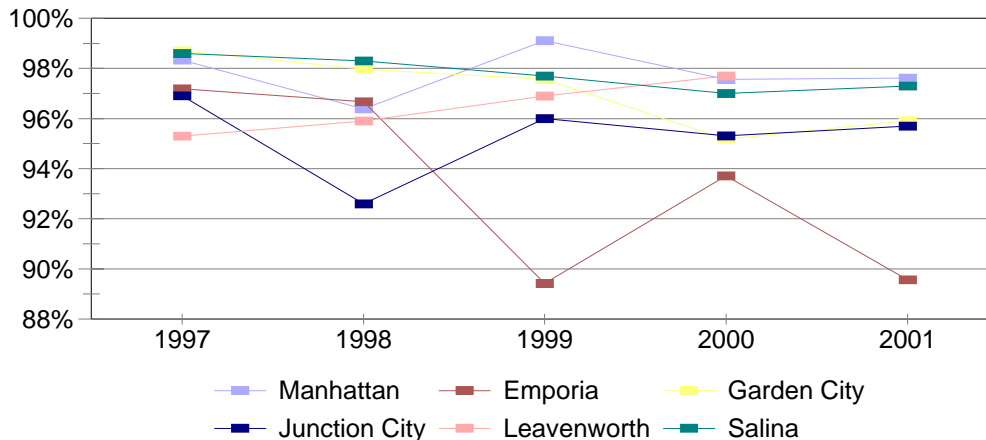
Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	98.33%	97.18%	98.70%	96.91%	95.30%	98.60%
1998	96.39%	96.67%	97.97%	92.60%	95.90%	98.30%
1999	99.11%	89.42%	97.56%	96.00%	96.90%	97.70%
2000	97.56%	93.71%	95.18%	95.31%	97.70%	97.00%
2001	97.61%	89.57%	95.91%	95.70%	Not Available	97.30%

Source: CAFR

Interpretation: An increasing amount of uncollected property taxes as a percentage of the net property tax levy over time suggests an overall decline in the government's economic health and decreased liquidity for the government in question. Fitch IBCA indicates that: A precipitous decline in the current tax collection rate can reflect either a problem with a major taxpayer or a weakness in the economy. Also, a chronically weak current tax collection rate could indicate inattentive financial management or poor collection procedures, though it may relate to the timing of how close tax payments become delinquent in relation to when the fiscal year ends. A consistently high total tax collection rate offsets the timing concern.

Benchmark: Ratings firms assume that a government normally will be unable to collect from 2-3% of its property taxes. Uncollected taxes of more than 5-8% or an increase in the rate of delinquency for two consecutive years are viewed as negative factors. Fitch IBCA considers a current tax collection rate in the low 90% range chronically weak.

% of Current Property Tax Collected



Expenditures

Expenditures Per Capita

$$\text{ICMA} = \frac{\text{Net Operating Expenditures (constant dollars)}}{\text{Population}}$$

where Net Operating Expenditures = expenditures in the general, special revenue, and debt service funds less capital project expenditures that are charged against one of these funds

Real Expenditures Per Capita (2001\$)

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	781.50	611.23	604.01	829.83	446.82	727.83
1998	785.24	571.55	651.70	996.16	450.93	703.07
1999	789.43	595.18	657.86	1,034.66	462.73	745.66
2000	795.86	546.94	586.84	812.80	503.22	800.31
2001	824.51	557.99	610.57	790.87	521.82	756.52

Definition: Real Total Operating Expenditures/OLG Population

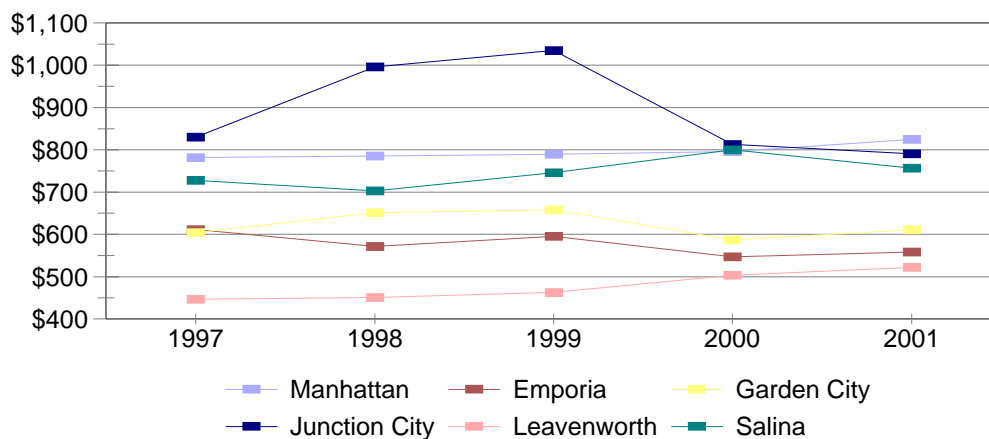
Source: CAFR, Office of Local Government

Net Operating Revenues includes General, Special Revenue, and Debt Service.

Population is from Census Bureau adjusted downward by state/federal inmate population.

Interpretation: Increases in real net operating expenditures per capita may indicate that the cost of providing services is outstripping the community's ability to pay. If an increase can't be explained by the addition of new services, it may also indicate that the government is spending more real dollars to support the same level of service.

Real Expenditures Per Capita



Municipal Employment Trends

Municipal Employment Trends

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	382	260	261	226	265	N.A.
1998	383	277	280	226	265	N.A.
1999	382	282	280	213	265	N.A.
2000	402	282	280	207	265	N.A.
2001	408	290	290	210	261	N.A.

Note: Manhattan includes RCPD employment adjustment

Source - Manhattan: CAFR, Statistical Section, RCPD - Full and Part-Time. Includes Manhattan share of RCPD.

Source - All Others: CAFR, Statistical Section - Full and Part-Time.

Salina - No city employment reported.

Manhattan Law Enforcement Adjustment Procedure

Year	RCPD Total Employment	Number Jailers/ Cooks	Non-Jail Employment	City Share of Non-Jail Empl. (80%)	City Share	City Levy (80% of Total)	City Share of Budget
					Reduction (Non-Jail Employment)		
1997	146	16	130	104	89.04%	\$4,884,502	\$4,349,214
1998	148	17	131	105	88.51%	\$5,210,701	\$4,612,174
1999	168	30	138	110	82.14%	\$5,701,709	\$4,683,547
2000	167	30	137	110	82.04%	\$6,212,196	\$5,096,233
2001	174	29	145	116	83.33%	\$6,714,300	\$5,595,250

Source: Riley County Police Department Budget Request and Personnel Strength

Employees Per 1,000 Population

$$\text{ICMA} = \frac{(\text{Number of Government Employees})}{(\text{Population})} * 1,000$$

where Number of Government Employees represents a count of employees

Municipal Employees Per 1,000 Population

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	9.08	10.38	10.78	13.30	7.07	N.A.
1998	9.19	11.12	11.38	13.24	7.15	N.A.
1999	9.21	11.33	11.18	12.64	7.17	N.A.
2000	8.96	10.54	9.84	10.96	7.95	N.A.
2001	9.50	10.96	10.36	11.63	7.80	N.A.

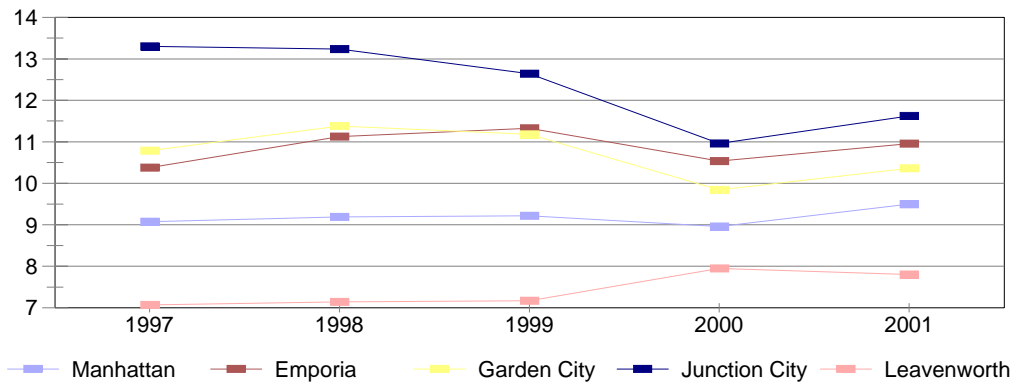
Definition: (Municipal Employees/OLG Population)1,000

Note: Manhattan adjusted employment (RCPD)

Salina municipal employment not available

Interpretation: Increasing employees per capita may indicate that expenditures are rising faster than revenues (as personnel costs are often a major portion of government expenditures), the government is becoming more labor intensive, and/or personnel productivity is declining. Note that an increase could also indicate the government is offering more services.

Employees Per 1,000 Population



Operating Expenditures

$$\text{Brown's Ten-Point Test}^* = \frac{\text{Operating Expenditures}}{\text{Total Expenditures}}$$

where Operating Expenditures = expenditures in the general, special revenue, and debt service funds and Total Expenditures = operating expenditures + expenditures in capital projects funds

Real Operating Expenditures as a Share of Real Total Expenditures

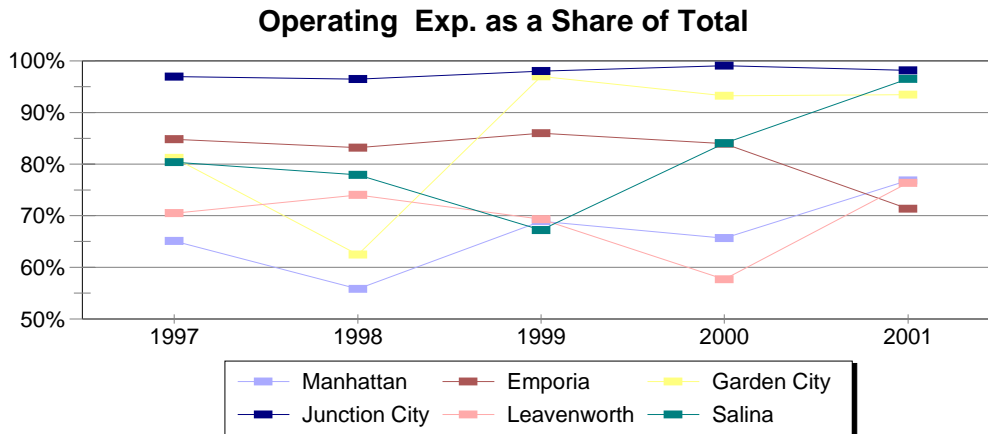
Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	65.08%	84.82%	81.18%	96.93%	70.47%	80.38%
1998	55.84%	83.19%	62.47%	96.48%	74.03%	77.91%
1999	68.94%	85.96%	97.00%	98.03%	69.33%	67.23%
2000	65.68%	83.94%	93.24%	99.05%	57.69%	84.03%
2001	76.83%	71.36%	93.46%	98.16%	76.35%	96.49%

Definition: Real Total Operating Expenditures/Real Total General Expenditures

Source: CAFR

Interpretation: May indicate inadequate financial capacity to maintain infrastructure. Capital expenditures are often one of the first discretionary expenditures cut when fiscal stress occurs. A low ratio suggests infrastructure is being maintained adequately (i.e. capital expenditures is a large part of total expenditures). Deferred capital expenditures create a need for increased capital expenditures in the future.

Alternate Interpretation: Operating expenditures are used for the day-to-day provision of governmental services. The ratio of operating expenditures to total expenditures is a measure of the efficiency with which a government provides services to its residents. A lower value is considered favorable as a government is expected to spend less of its total expenditures providing services if they are provided efficiently. Note: a government could be spending less because it's providing a lower level and/or quality of services or because of large capital expenditures (see interpretation above).



Operating Position

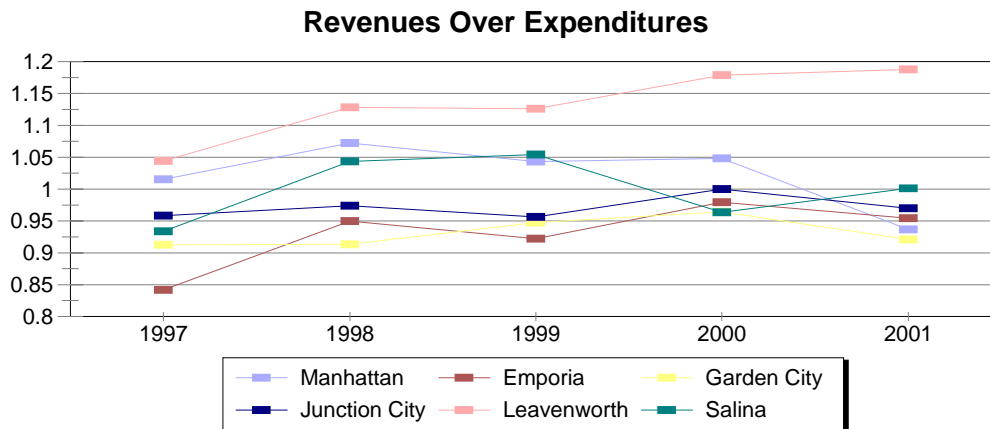
Real Revenues over Real Expenditures

$$\text{Brown's Ten-Point Test}^* = \frac{\text{Total Revenues}}{\text{Total Expenditures}}$$

Real Revenues Over Real Expenditures						
Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	1.02	0.84	0.91	0.96	1.04	0.93
1998	1.07	0.95	0.91	0.97	1.13	1.04
1999	1.04	0.92	0.95	0.96	1.13	1.05
2000	1.05	0.98	0.96	1.00	1.18	0.96
2001	0.94	0.95	0.92	0.97	1.19	1.00

Source: CAFR - Includes General, Special Revenue and Debt Service Funds.

Interpretation: Indicates the relationship of inflow from revenues to outflow for expenditures. A high ratio suggests the government experienced a positive "interperiod equity" (i.e. revenues covered expenditures by a greater margin) and is viewed as a positive factor.



Operating Deficits

$$\text{ICMA} = \frac{\text{General Fund Operating Deficits}}{\text{Net Operating Revenues}}$$

where General Fund Operating Deficit represents the amount by which current revenues exceed current expenditures (surpluses can be considered negative deficits)

Real Operating Deficits

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	-5.31%	-2.02%	8.92%	-2.68%	9.04%	-1.89%
1998	-4.05%	-1.52%	10.08%	-1.94%	8.70%	3.14%
1999	-6.07%	-0.53%	4.99%	-7.04%	5.41%	4.11%
2000	2.33%	-2.22%	5.52%	0.65%	8.73%	-2.01%
2001	-1.42%	-4.29%	0.23%	-0.89%	10.64%	1.81%

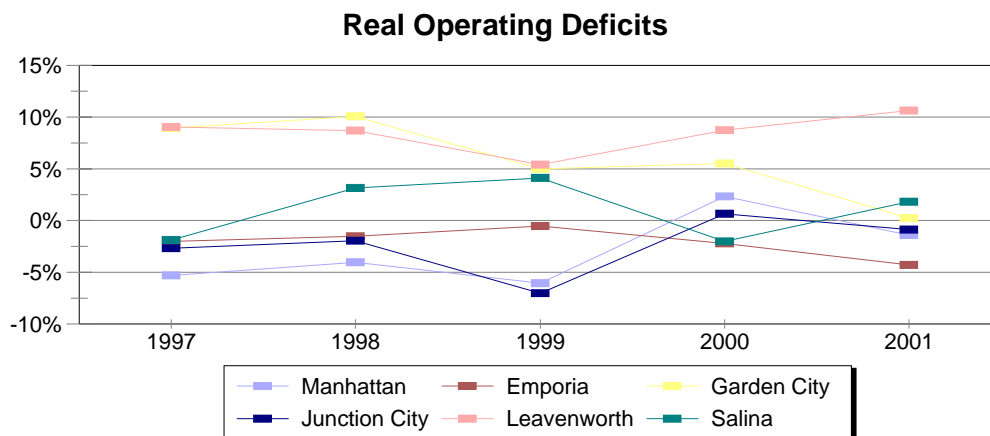
Definitions: General Government Fund Revenue minus Expenditures divided by Net Operating Revenues

Manhattan included adjusted RCPD revenues and expenditures

Source: CAFR - Combined Statement

Interpretation: Increasing general fund operating deficits as a percentage of net operating revenues over time is viewed unfavorably. Though an operating deficit in any one year may not be a cause for concern (as reserves from prior years can be used to cover the difference, etc.), frequent and increasing deficits can indicate that current revenues are not supporting current expenditures.

Benchmark: Ratings firms consider a current year operating deficit a minor warning signal. Two consecutive years of deficits, a current deficit greater than that in the previous year, a deficit in two or more of the last five years, or an abnormally large deficit (i.e. greater than 5-10%) in a single year are more serious and typically viewed negatively.



Capital Plant

Capital Outlay

$$\text{ICMA} = \frac{\text{Capital Outlay from Operating Funds}}{\text{Net Operating Expenditures}}$$

where Capital Outlay is a term that normally refers to equipment that will last longer than one year and has an initial cost above a significant minimum amount and does not include capital budget expenditures for construction of infrastructure (e.g. streets or buildings)

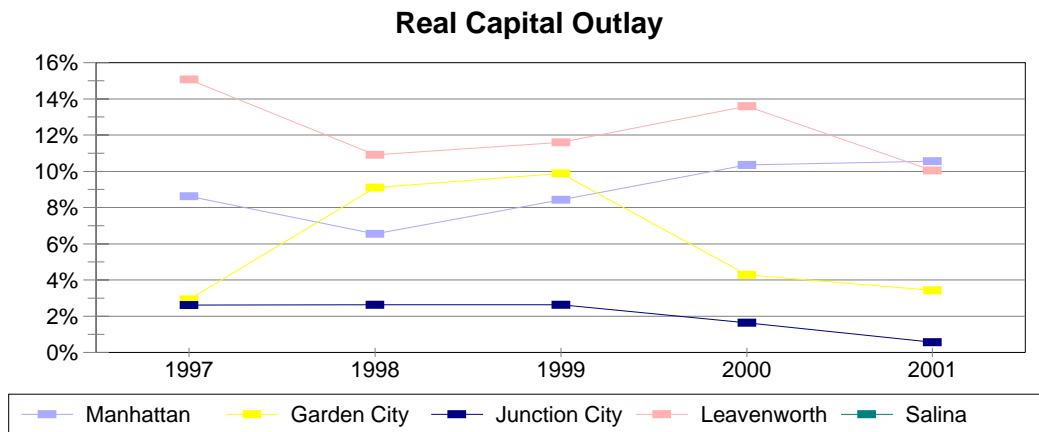
Real Capital Outlay as a Share of Real Net Operating Expenditures

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	8.63%	N.A.	12.84%	2.92%	2.62%	15.07%
1998	6.54%	N.A.	13.64%	9.10%	2.62%	10.91%
1999	8.43%	N.A.	12.98%	9.88%	2.63%	11.60%
2000	10.35%	N.A.	10.36%	4.29%	1.64%	13.59%
2001	10.55%	N.A.	11.54%	3.42%	0.56%	10.04%

Definition: Real Capital Outlay from Operating Funds/Real Total Operating Expenditures

Information for Emporia is not available

Interpretation: A three or more year decline in capital outlay from operating funds as a percentage of net operating expenditures is considered undesirable. While a decline in the short-term may suggest that the government’s needs are temporarily satisfied, a decline for more than three years may indicate that capital outlay needs are being deferred.



Debt

Long-Term Debt

$$\text{ICMA}^* = \frac{\text{Net Direct Bonded Long-Term Debt}}{\text{Assessed Valuation}}$$

where Net Direct Bonded Long-Term Debt = Direct Bonded Debt – Self-Supporting Bonded Debt (debt the government has pledged to repay from a source separate from its general tax revenues)

Long-Term Debt						
Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	16.57%	15.83%	12.29%	17.22%	14.62%	3.32%
1998	19.92%	23.55%	12.57%	16.66%	13.94%	2.58%
1999	22.05%	20.77%	11.02%	13.86%	16.57%	3.21%
2000	21.09%	22.06%	9.25%	11.67%	20.98%	3.51%
2001	21.62%	24.39%	9.32%	12.51%	18.17%	2.92%

Definition: Real Net General Obligation Debt/Real Total Assessed Valuation

Source: CAFR

Interpretation: Indicates the government's ability to repay its net general long-term debt.

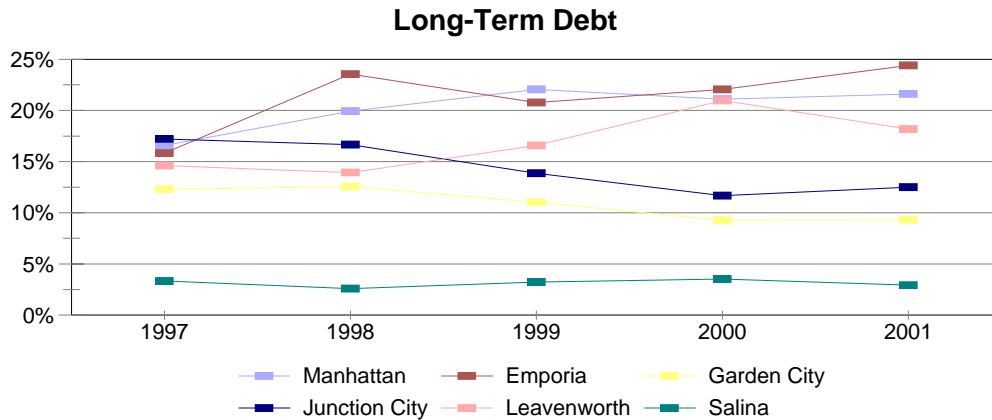
Increasing net direct bonded long-term debt as a percentage of assessed valuation is undesirable, as it suggests that debt is exceeding the government's ability to pay. Fitch IBCA indicates that sustained growth in debt (i.e. well beyond tax base growth) may ultimately overburden a tax base and reduce economic viability by straining budget and tax resources and reducing flexibility. Similarly, Standard & Poor's reports that accelerated debt issuance can overburden a municipality, force the reduction of necessary services, and consequently lead to lower credit ratings. A government near its debt limit has less flexibility to meet future capital needs, but, more importantly, may be unable to borrow money in the event of an emergency.

Debt reduction, on the other hand, generates tax and economic capacity to the extent that infrastructure necessary for economic growth isn't underfunded. Standard & Poor's also indicate that a low debt profile may not be a positive credit factor, since it may indicate underinvestment in capital facilities. Neglecting critical capital needs may impede economic growth and endanger future tax revenue generation. Although some capital projects are discretionary and can be deferred in difficult economic periods, the failure to maintain existing facilities can create a backlog of projects.

Benchmark: Warning signals include – (1) overall net debt (net direct bonded debt plus overlapping bonded debt) exceeding 10% of assessed valuation (2) an increase of 20% over the previous year in overall net debt as a percentage of market valuation (3) overall net debt as a percentage of market valuation increasing 50% over the figure for 4 years earlier (4) overall net debt per capita exceeding 15% of per capita personal income (5) net direct debt exceeding 90% of the amount authorized by state law. It is important to recognize that these values may not be valid benchmarks for states with

extremely low assessment ratios. Standard & Poor's considers a debt (not including pension funding debt) to market value ratio (or debt to income) of $\leq 3\%$ to represent a low debt burden; 3-6% a moderate debt burden; and $\geq 6\%$ a high debt burden. Similarly, Fitch IBCA identifies the average range of total debt as a percentage of market value (or personal income) as 2-5%. They suggest that below 2% is low and above 6% the ratio trends toward high with 10% a level above which affordability questions are raised. They indicate, however, that at both extremes, distinctions are made depending on where the community is in its life cycle.

Related Notes: In general, Fitch IBCA places more focus on direct debt ratios since these costs are totally under control of the issuer and can be managed by the unit's elected and appointed officials. Tax-supported debt includes all obligations of an entity paid from tax sources. Self-support credit is given for tax-supported debt if debt service has been paid from an enterprise-type operation that levies user charges (e.g. water, sewer, electric, natural gas, airport, solid waste). Such debt is generally deducted in the calculation of net tax-supported debt if the user charge-supported system has been paying all its expenditures (including debt service) from non-tax sources for three years or more. The value of adjusting tax-supported debt in this fashion is to provide valid debt load comparisons between places that provide some services as a municipal function and those places that have the same services provided by the private sector. Standard & Poor's suggests measuring the debt burden against a community's ability to pay. Three indicators of ability to pay are: tax base, income of the community, and total budget resources.



Long-Term Debt

$$\text{Brown's Ten-Point Test*} = \frac{\text{Direct Long-Term Debt}}{\text{Population}}$$

where Direct Debt is all general obligation tax-supported bonded debt in the general long-term debt account group to be repaid from property tax revenues

Net Bonded Debt per Capita

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	\$697.91	\$679.95	\$643.94	\$774.96	\$503.17	\$225.76
1998	\$883.28	\$1,019.25	\$690.97	\$705.72	\$492.81	\$185.90
1999	\$1,005.85	\$947.61	\$628.10	\$612.44	\$597.26	\$239.64
2000	\$935.20	\$950.59	\$478.53	\$463.68	\$863.06	\$260.14
2001	\$1,063.35	\$1,096.66	\$494.28	\$525.38	\$782.14	\$219.78

Definition: Real Net G.O. Debt/ OLG Population

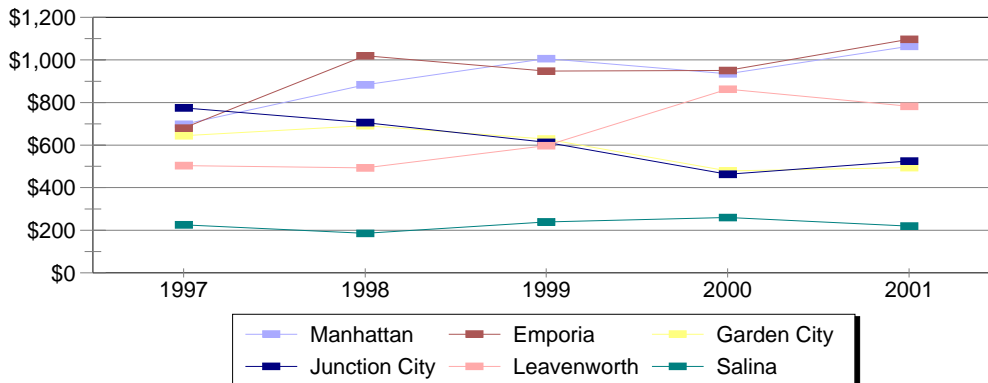
Source: CAFR

Interpretation: A low ratio suggests the government has the ability to repay its long-term debt. If long-term debt is increasing as population stabilizes or declines, debt levels may be reaching or exceeding the government's ability to pay (assuming that the ability to generate revenue and repay debt is directly related to population size). A high ratio is not inherently bad, however, and must be considered in the local context. Governments can and should wisely use debt. A government can have a ratio of zero, for example, but lag in the provision of important services and infrastructure replacement.

Benchmark: A debt burden greater than \$1,200 per capita or level of debt exceeding 90% of the amount authorized by law is considered a warning signal. Standard & Poor's indicates that overall debt per capita of \$1,000 or less is considered low; \$1,000-\$2,500 moderate; and greater than \$2,500 high.

Related Notes: While not identical to the above measure, ICMA suggests it may be useful to monitor debt on a per capita basis, particularly for communities that do not rely heavily on property taxes and cannot easily compute a substitute revenue base for comparison.

Long-Term Debt Per Capita



Real Debt Limit (2001\$)

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	\$62,180,188	\$31,122,467	\$35,086,099	\$26,907,451	\$45,899,617	\$90,469,207
1998	\$66,492,682	\$31,937,539	\$40,567,269	\$25,735,914	\$46,698,533	\$95,339,918
1999	\$70,352,212	\$35,790,500	\$42,811,393	\$25,318,163	\$47,277,017	\$98,697,455
2000	\$73,607,512	\$31,534,855	\$44,144,168	\$26,388,155	\$48,066,631	\$101,427,764
2001	\$76,989,959	\$35,698,200	\$44,520,686	\$26,179,946	\$50,154,260	\$103,278,823

Source: CAFR Statistical Section

Real Outstanding Debt Subject to Debt Limit (2001\$)

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	\$32,048,877	\$18,456,540	\$15,583,873	\$9,866,080	\$6,220,311	\$22,855,319
1998	\$27,087,050	\$19,650,187	\$17,003,440	\$9,163,177	\$6,589,970	\$27,130,737
1999	\$32,569,969	\$23,746,892	\$15,729,439	\$9,014,438	\$6,590,842	\$27,170,355
2000	\$39,719,622	\$25,540,875	\$13,614,659	\$6,763,435	\$13,948,085	\$27,442,888
2001	\$41,596,804	\$29,275,000	\$13,832,000	\$6,542,599	\$10,472,005	\$24,132,488

Source: CAFR Statistical Section

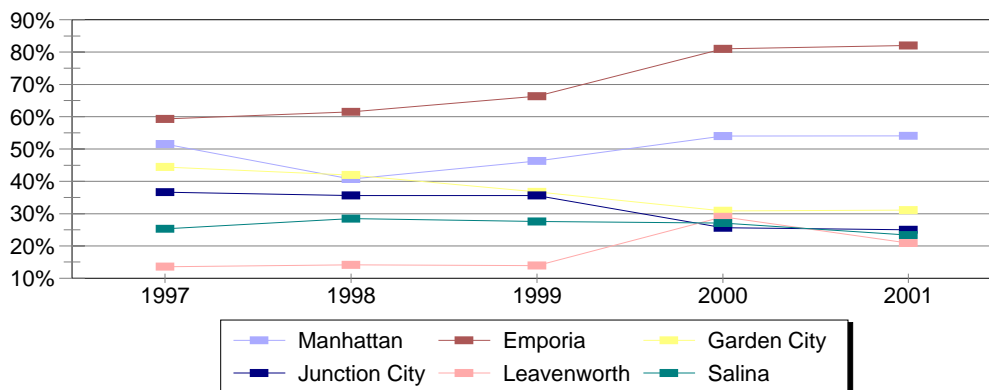
Proportion of Legal Debt Limit Used

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	51.54%	59.30%	44.42%	36.67%	13.55%	25.26%
1998	40.74%	61.53%	41.91%	35.60%	14.11%	28.46%
1999	46.30%	66.35%	36.74%	35.60%	13.94%	27.53%
2000	53.96%	80.99%	30.84%	25.63%	29.02%	27.06%
2001	54.03%	82.01%	31.07%	24.99%	20.88%	23.37%

Source: CAFR Statistical Section

Debt Service

Proportion of Debt Limit Used



$$\text{ICMA}^* = \frac{\text{Net Direct Debt Service}}{\text{Net Operating Revenues}}$$

where Net Direct Debt Service is the amount of principal and interest a government must pay each year on net direct bonded long-term debt plus the interest it must pay on direct short-term debt

Real Debt Service

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	15.44%	11.05%	18.15%	14.17%	15.90%	14.42%
1998	14.80%	12.37%	17.60%	13.59%	15.29%	9.39%
1999	14.63%	13.58%	17.51%	13.43%	15.57%	7.53%
2000	14.63%	12.65%	17.81%	13.73%	14.50%	8.55%
2001	16.85%	12.97%	17.56%	13.34%	13.80%	9.32%

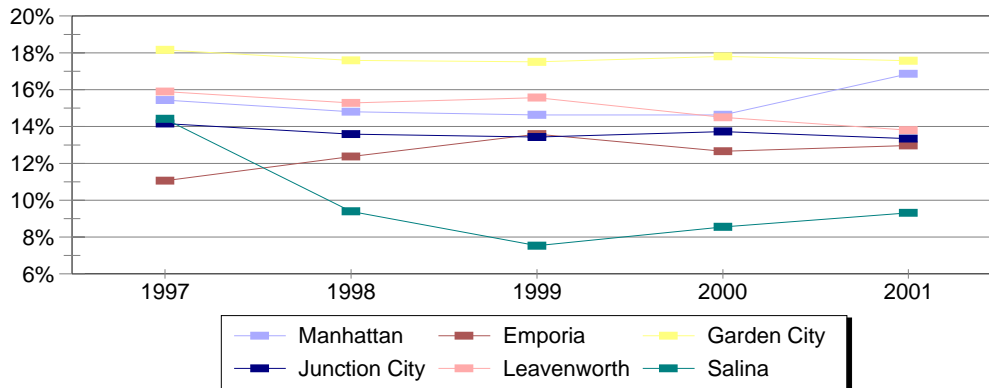
Definition: Real Total Debt Service Fund Expenditures/Real Net Operating Revenues

Source: CAFR

Interpretation: Indicates the extent of the government's fixed costs for paying principal and interest on its direct tax-supported debt. Increasing net direct debt service as a percentage of net operating revenues reduces a government's expenditure flexibility and may suggest excessive debt and/or fiscal strain.

Benchmark: Debt service on net direct debt exceeding 20% of operating revenues is considered a warning signal. A ratio of 10% or less is considered acceptable.

Real Debt Service



Overlapping Debt

$$\text{ICMA} = \frac{\text{Long-Term Overlapping Bonded Debt}}{\text{Assessed Valuation}}$$

where Overlapping Debt is the net direct bonded debt of another jurisdiction that is issued against a tax base within part of all of the boundaries of the community

Real Overlapping Debt

Year	Manhattan	Emporia	Garden City	Junction City	Leavenworth	Salina
1997	36.43%	30.77%	21.67%	22.61%	27.71%	6.31%
1998	41.18%	32.53%	21.90%	21.08%	40.20%	24.46%
1999	39.55%	28.71%	20.29%	18.22%	40.84%	22.48%
2000	39.76%	38.65%	16.48%	14.98%	36.78%	22.35%
2001	37.60%	54.28%	18.15%	14.61%	29.82%	30.73%

Definition: Real Estimated Overlapping G.O. Debt/Real Total Assessed Valuation

Source: CAFR

Interpretation: While direct debt ratios indicate the burden on the entity of its own capital costs, overall ratios best measure the debt that must be serviced by the community's tax base, and are a partial indicator of the total local tax burden that is levied by all the overlapping governments serving the taxpayer. This indicator measures the ability of the community's tax base to repay the debt obligations issued by all of its governmental and quasi-governmental jurisdictions. Though the probability that the government would have to repay overlapping debt is slim, increasing overlapping debt as a percentage of assessed valuation is undesirable.

Related Notes: Fitch IBCA indicates that though measuring overlapping debt is important, default experience shows that mismanagement of an issuer's direct debt has more negative consequences and potential for default than the higher debt that results from issuance by overlapping governments. Overall debt per capita is an indicator of the total local tax burden that residents and businesses must bear to repay debt by all overlapping governments. It does not, however, account for variations in the residential and commercial composition, mix of the tax base, and who pays the debt, or measure ability to pay. Thus, overall debt as a percentage of market value of the property tax base is a better indicator of the local debt burden.

Real Overlapping Debt

